

Message Text

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC IMMEDIATE 9089

S E C R E T SECTION 1 OF 2 QUITO 1397

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DEPT PASS CIA AND ASST SECY ROGERS

E.O. 11652: XGDS-1

TAGS: ENRG PFOR EC

SUBJECT: ADMIRAL POVEDA ASKS WE INTERVENE WITH TEXACO/GULF TO
ENSURE THEIR CONTINUED OPERATIONS IN ECUADOR

REF: (A) QUITO 0463, (B) QUITO 1320, (C) QUITO 1059,

(D) QUITO 0900, (E) QUITO 1388

1. SUMMARY: IN CALL AT HIS REQUEST ON SUPREME COUNCIL PRESIDENT, VICE ADMIRAL ALFREDO POVEDA BURBANO, FEBRUARY 18, THE ADMIRAL EXPRESSED TO ME HIS CONCERN THAT ECUADORH OT MAKE SERIOUS ERRORS IN ITS PETROLEUM POLICY. HE OPPOSES ANY NATIONALIZATION SCHEME AND SAID THE SUPREME COUNCIL HAD DECIDED THERE WOULD BE NO INCREASE IN GOVERNMENT TAKE ON PETROLEUM NOW. FINALLY, HE ASKED I INTERCEDE WITH TEXACO ANG GULF TO PERSUADE THEM TO WITHDRAW OR MUTE THEIR OFFER TO SELL OUT AND TO CONTINUE TO OPERATE HERE ON CURRENT BASES. I BELIEVE IT IS IN THE U.S. INTEREST TO DO SO, AND SO RECOMMEND. END SUMMARY.

2. THE PRESIDENT, VICE ADMIRAL ALFREDO POVEDA BURBANO, TELEPHONED ME THE AFTERNOON OF FEBRUARY 18 TO REQUEST THAT I COME TO HIS HOME THAT EVENING FOR A CONFIDENTIAL DISCUSSION, "PROTOCOL ASIDE", OF PROBLEMS THAT COULD AFFECT OUR TWO COUNTRIES.

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3. I WENT TO SEE HIM AT 8:00 P.M. THE ADMIRAL BEGAN BY

SAYING THAT HE HAD SEVERAL PREOCCUPATIONS. BY WAY OF BACKGROUND, HE SAID THAT THE SUPREME COUNCIL (CONSISTING OF HIMSELF, GENERAL LUIS GUILLERMO DURAN ARCENTALES, HEAD OF THE ARMY, AND GENERAL LUIS LEORO FRANCO, HEAD OF THE AIR FORCE) HAD GIVEN INSTRUCTIONS THAT THE GOVERNMENT WAS TO FOLLOW A "SERIOUS PETROLEUM POLICY". THEY DID NOT WANT TO FALL INTO THE SAME TRAP THAT THE RODRIGUEZ LARA GOVERNMENT HAD FALLEN INTO BECAUSE OF ERRORS MADE IN PETROLEUM PRICING POLICY AND THE DISPUTES AND DIFFICULTIES WHICH FOLLOWED THEREON. HE REITERATED TWICE THAT NEITHER THE GOVERNMENT NOR HE HIMSELF WERE GOING TO FALL INTO THIS SAME TRAP.

4. THE UNEXPECTED OFFER MADE BY TEXACO AND GULF TO THE SUPREME COUNCIL ON FEBRUARY 4 (REF C) THAT THE GOVERNMENT BUY THEIR HOLDINGS, SIGN A SERVICE CONTRACT WITH TEXACO/ GULF, AND TURN OVER THE MARKETING TO THEM, HAD CAUGHT THE SUPREME COUNCIL BY SURPRISE. THE PRESIDENT SAID THAT HE HAD BEEN ABLE TO DEAL WITH THE MATTER BY WALTZING IT AROUND (THESE WERE NOT HIS WORDS, BUT THAT WAS HIS INTENT) BUT THE PROBLEM PRESENTED REMAINED AND HAD TO BE DEALT WITH.

5. POVEDA SAID THAT HE PERSONALLY WAS OPPOSED TO THE GOE BUYING THE TEXACO/GULF PROPERTIES. HE WISHED THE COMPANIES TO CONTINUE TO OPERATE AND MANAGE THEIR WORKS ON THE SAME BASIS AS IN THE PAST. HOWEVER, THERE WERE THOSE WHO WERE WAITING FOR A NATIONALIZATION SCHEME TO BE PUT FORWARD OR TO HAVE IT COME UP AS A RESULT OF A DISPUTE BETWEEN THE GOE AND THE COMPANIES, AND THESE (UNNAMED) PEOPLE WERE PREPARED TO TAKE ADVANTAGE OF THAT DISPUTE WHEN IT AROSE. THE RUMANIANS, THE ADMIRAL SAID, WERE PREPARED TO OFFER TO SEND TECHNICIANS TO OPERATE THE INDUSTRY AND TO UNDERTAKE TO MARKET ALL ITS PRODUCTS AS WELL. THE OFFER HAD NOT BEEN FORMALLY MADE, THE ADMIRAL SAID, BUT THERE WAS NO DOUBT THAT IT WOULD BE AT THE PROPER TIME. AND HE KNEW EXACTLY HOW THIS WOULD WORK OUT: THE FIRST YEAR WOULD BE FINE, BUT THEN AFTER THE US COMPANIES AND TECHNICIANS HAD LEFT AND ECUADOR HAD NO OTHER ALTERNATIVE THE RUMANIANS WOULD START TO TURN THE SCREWS ON PRICE AND SEEK TO EXACT

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CONCESSIONS. THERE WAS ANOTHER CONSIDERATION IN ADDITION: THE MILITARY GOVERNMENT WAS PLANNING TO TURN OVER THE REINS TO A CIVILIAN GOVERNMENT. IF THE OIL INDUSTRY WERE NATIONALIZED NOW THAT WOULD PRESENT A FAIT ACCOMPLI TO A CIVILIAN GOVERNMENT AND IN PART DETERMINE THE DIRECTION WHICH IT MUST INEVITABLY TAKE. HE WAS UNALTERABLY OPPOSED TO SUCH A DEVELOPMENT, WHICH WOULD BRING WITH IT UNFORESEEN ECONOMIC AS WELL AS POLITICAL CONSEQUENCES.

HE WAS SURE THE UNITED STATES WOULD BE ALSO CONCERNED AT SUCH A DEVELOPMENT. THE PRESIDENT SAID HE WOULD FIGHT SUCH A TURN OF EVENTS, AND IF NECESSARY WOULD LEAVE THE GOVERNMENT IF NO OTHER ALTERNATIVE PRESENTED ITSELF BEFORE ACCEDING TO NATIONALIZATION ON THOSE TERMS.

6. I ASKED THE PRESIDENT WHAT HAD HAPPENED ON THE PETROLEUM PRICE RISE, AND HE SAID THAT THE SUPREME COUNCIL HAD GIVEN INSTRUCTIONS THAT THERE WAS TO BE NO PRICE RISE NOW AND THAT THE PROBLEM WAS TO BE STUDIED FURTHER. HE SAID HE NEEDED TIME TO WORK OUT THE POLITICAL ASPECTS OF THIS PROBLEM: AS I COULD APPRECIATE, IT WAS A LIVELY POLITICAL ISSUE, AND IT HAD TO BE HANDLED WITH GREAT DELICACY. HE NEEDED TIME AND ROOM TO MANEUVER. I ASKED WHETHER THERE HAD YET BEEN A COMPARISON OF THE RESPECTIVE PRICING STUDIES OF THE GOE AND THE COMPANIES, AND HE SAID THAT THERE HAD BEEN BUT THAT A DECISION HAD NOT YET BEEN REACHED. (THE PRESS, QUOTING RESOURCES MINISTER COL. RENE VARGAS, STATED FEBRUARY 19 THAT THE GOE HAD COMMISSIONED THE FIRM OF PEAT, MARWICK AND MITCHELL TO STUDY THE REAL COST OF A BARREL OF PETROLEUM. IN FACT, THE PEAT MARWICK STUDY HAS TO DO WITH THE COST OF PRODUCTION, NOT MARKET PRICES, AND WAS COMMISSIONED A YEAR AGO. SEE REF E.)

7. SINCE THE PRESIDENT HAD NOT MENTIONED MINISTER OF NATURAL RESOURCES COL. RENE VARGAS BY NAME, I TOOK OCCASION TO REVIEW MY JANUARY 29 DISCUSSION WITH VARGAS (REF D) AND TO SAY THAT I HAD REPLIED TO HIS REQUEST THAT I ASK THE COMPANIES TO ACCEPT A PRICE RISE BY SIMPLY STATING IN A LETTER DATED FEBRUARY 17 THAT I HAD COMMUNICATED HIS PREOCCUPATIONS TO THE COMPANIES. I MENTIONED THAT VARGAS HAD ASKED FOR OUR ASSISTANCE IN
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INTERESTING US COMPANIES IN DRILLING ON THE ECUADOREAN SHELF. FINALLY, I ASKED THE PRESIDENT WHETHER HE HAD BEEN INFORMED ABOUT AN OFFER MADE BY NORTHWEST ENERGY TO SELL CEPE A REFINERY WITH ASSOCIATED GAS STATIONS IT OWNED IN THE UNITED STATES IN ORDER THAT CEPE MIGHT HAVE AN ASSURED MARKET FOR ITS CRUDE THERE, AN OFFER WHICH HAD BEEN TURNED DOWN. THE PRESIDENT SAID THAT HE DID NOT KNOW OF THE PROPOSAL, BUT WOULD ASK FOR THE INFORMATION. MY REFERENCE TO VARGAS AND HIS MINISTRY ELICITED A COMMENT BY ADMIRAL POVEDA TO THE EFFECT THAT HE MIGHT ULTIMATELY HAVE TO DISCHARGE VARGAS, THOUGH THAT WOULD BE SOMEWHAT DIFFICULT AND WOULD CAUSE PROBLEMS.

8. AT ONE POINT THE PRESIDENT REFERRED TO "TWO ADVISERS" IN THE MINISTRY OF NATURAL RESOURCES WHO WERE

COMMUNISTS. (THEY ARE LUIS ARAUZ AND RODRIGO CABEZAS,
WHO ARE COMMUNISTS AND WHO WERE ADVISERS OF FORMER

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MINISTER JARRIN. THEY LEFT THE MINISTRY WHEN HE DID BUT
HAVE NOW RETURNED AS ADVISERS TO VARGAS.) THE PRESIDENT
SAID THERE HAD BEEN A PLAN TO SEND ARAUZ TO HOUSTON AND
CABEZAS TO BUENOS AIRES AS COMMERCIAL ATTACHES. HE HAD
NOW REVIVED THAT PLAN AND WAS WORKING BEHIND THE SCENES
TO GET IT PUT INTO EFFECT. HE SAID HE HOPED I WOULD NOT
MIND IF ONE OF THEM WENT TO HOUSTON: I REPLIED THAT I
WOULD RATHER HAVE ARAUZ IN HOUSTON THAN IN QUITO.

9. THE PRESIDENT REFERRED BRIEFLY IN PASSING TO HIS OWN
POLITICAL PHILOSOPHY AND MOTIVATION. HE SAID HE HAD
NOTHING PERSONALLY TO PROFIT FROM ANYTHING THAT HAPPENED
ON THE PETROLEUM ISSUE. IN DEALING WITH IT HE DEALT WITH
IT AS A "NATIONALIST", ONE THAT BELIEVED IN LATIN
AMERICAN INTEGRATION BUT ALSO IN CORDIAL AND COOPERATIVE
RELATIONS WITH THE UNITED STATES.

10. ADMIRAL POVEDA THEN CAME TO THE POINT OF OUR MEETING.
HE REQUESTED THAT I USE MY OFFICES TO PERSUADE TEXACO AND
GULF TO ACCEPT THE PRESENT PRICING SITUATION AND TO
CONTINUE THEIR WORK HERE. SPECIFICALLY, HE WANTS THEM
TO WITHDRAW FROM OR AT LEAST NOT PURSUE AGAIN THE
QUESTION OF THE SALE OF THEIR PROPERTIES TO THE GOVERNMENT.
HE FURTHER ASKED THAT IF OTHER PROPOSALS WERE TO BE MADE

BY THE COMPANIES, I COMMUNICATE TO HIM IN ADVANCE THE
ESSENCE OF THOSE PROPOSALS SO THAT HE MIGHT BE PREPARED
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TO DEAL WITH THEM WHEN THEY WERE PRESENTED TO THE SUPREME
COUNCIL. FINALLY, HE TOLD ME ON TWO OCCASIONS THAT THIS
REQUEST MUST BE HANDLED WITH THE UTMOST CONFIDENTIALITY
AND THAT HE HAD NOT DISCUSSED IT OR HIS CONVERSATION WITH
ME WITH HIS TWO COLLEAGUES ON THE SUPREME COUNCIL.

11. I TOLD THE PRESIDENT THAT I UNDERSTOOD THE PROBLEMS
AND DANGERS WHICH THE IDEA OF NATIONALIZATION COULD
PRESENT, AND THAT I HAD BEEN THINKING ALONG SOME OF THE
SAME LINES AS HE. I SAID I WOULD COMMUNICATE HIS
VIEWS TO MY GOVERNMENT AND SEEK ITS INSTRUCTIONS.

12. COMMENT: ALTHOUGH I HAVE NO MEANS OF KNOWING
THE TRUE FINANCIAL PICTURE FOR TEXACO OR GULF OPERATIONS
IN ECUADOR UNDER VARIOUS FORMULAS OF STRUCTURE OR PRICING,
SEVERAL OTHER POINTS ARE SUFFICIENTLY CLEAR TO LEAD ME
TO A FEW CONCLUSIONS. TEXACO AND GULF DID OFFER THE GOE
TO CARRY OUT A CERTAIN LEVEL OF INVESTMENT IN 1976 (QUITO
0463 AND 0900) ON THE BASIS OF THE PRESENT PRICE STRUCTURE.
IT WAS ONLY AFTER MINISTER VARGAS CONFRONTED THE COMPANIES
WITH THE RISE IN GOVERNMENT TAKE "OR ELSE" (QUITO 0900)
THAT TEXACO AND GULF MADE THE COUNTER OFFER TO SELL OUT.
THEREFORE, THE COMPANIES MIGHT WELL CONSIDER REVERTING
TO THEIR PRIOR OFFER IF THEY HAVE SOME ASSURANCE OF PRICE
STABILITY.

13. ON THIS BASIS, I BELIEVE IT WOULD BE IN THE U.S.
INTEREST TO ACCEDE PROMPTLY TO ADMIRAL POVEDA'S REQUEST
OF USG GOOD OFFICES WITH TEXACO AND GULF. FIRST,
ANY PROCESS OF NATIONALIZATION IS BOUND TO BECOME A LONG,
ACRIMONIOUS AND PUBLIC PROCESS TO THE DETRIMENT OF GOOD
RELATIONS BETWEEN OUR COUNTRIES. SECOND, SUPPORT FOR
ADMIRAL POVEDA'S POSITION ON THIS ISSUE, IF EFFECTIVE,
CAN STRENGTHEN HIM WITHIN THE JUNTA--AND HE IS THE ONE
MEMBER WHO HAS CONSISTENTLY BEEN HELPFUL TO US ON A
VARIETY OF ISSUES--INCLUDING MOST IMPORTANTLY THE FISH-
ING DISPUTE. THIRD, THE CONTINUATION OF TEXACO AND
GULF AS PART OWNERS AND OPERATORS OF THE CONSORTIUM
UNDER THE PRESENT STRUCTURE, WILL BE FAR MORE BENEFICIAL
TO ECUADOR'S ECONOMIC GROWTH AND STABILITY THAN A
NATIONALIZED PETROLEUM INDUSTRY BECAUSE, BY ADMISSION OF
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MOST KNOWLEDGABLE ECUADOREANS, INCLUDING FORMER PRESIDENT RODRIGUEZ LARA, ECUADOR WILL NOT HAVE THE TECHNICAL CAPACITY TO MANAGE THE OPERATIONS AND MARKET THE PRODUCTS FOR MANY YEARS TO COME. AND THE ADVENT OF RUMANIAN TECHNICIANS IS CERTAINLY SOMETHING WHICH WE SHOULD NOT VIEW WITH EQUANIMITY.

14. RECOMMENDATION: IT IS NOT FRUITFUL TO DEAL AT THE LEVEL OF THE LOCAL TEXACO AND GULF MANAGERS ON THIS ISSUE. I ASK THAT THE DEPARTMENT, AS AN APPROPRIATELY HIGH LEVEL, DISCUSS THIS MATTER WITH GULF VP LUMPKIN AND TEXACO VP SHIELDS IN THE U.S. IT IS IMPORTANT THE ISSUE BE COUCHED IN TERMS OF U.S. INTERESTS AND THAT MY DIRECT CONTACT WITH POVEDA NOT BE MENTIONED AT THIS TIME (IN ORDER TO AVOID ANY CHANCE IT WILL GET BACK TO OTHER MEMBERS OF THE SUPREME COUNCIL). IT SHOULD BE SUGGESTED TO LUMPKIN AND SHIELDS THAT THEY THEN TRAVEL TO ECUADOR TO DISCUSS THE MATTER FURTHER WITH US, AND THAT THEY BE PREPARED TO SEE THE SUPREME COUNCIL AND EXPRESS THEIR WILLINGNESS TO GO AHEAD WITH OPERATIONS HERE.

15. PLEASE ADVISE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, POLICIES, DIPLOMATIC DISCUSSIONS, PRICES, CAT-B
Control Number: n/a
Copy: SINGLE
Draft Date: 20 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976QUITO01397
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: RF:
Executive Order: X1
Errors: N/A
Film Number: P840098-2150
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760230/aaaaaznv.tel
Line Count: 301
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NODS
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: NODIS
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: NODIS
Reference: 76 QUITO 1388, 76 QUITO 463, 76 QUITO 1320, 76 QUITO 1059, 76 QUITO 900
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 08 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 MAR 2004 by GarlanWA>; APPROVED <26 OCT 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ADMIRAL POVEDA ASKS WE INTERVENE WITH TEXACO/GULF TO ENSURE THEIR CONTINUED OPERATIONS IN ECUADOR
TAGS: ENRG, PFOR, EINV, EC, US, TEXACO, GULF, (POVEDA BURBANO, ALFREDO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006